

# ISSUE REVIEW

Fiscal Services Division

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## General Fund Appropriations Trends (FY 1990 to FY 2019)

Revised with updated information

### ISSUE

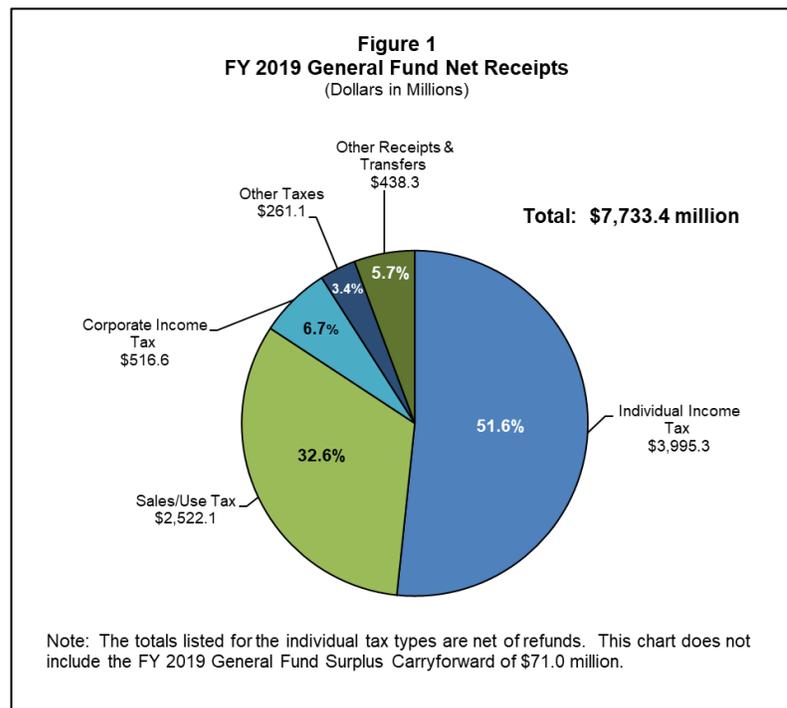
This **Issue Review** examines General Fund appropriations enacted over the past 30 years to provide insight into changes in General Fund spending. The report includes a brief overview of the General Fund budget enacted for FY 2019 and then examines trends associated with broad categories of General Fund spending. The **Issue Review** also examines changes in the State's use of tax credits to implement a variety of public policy initiatives.

### OVERVIEW OF THE GENERAL FUND BUDGET

The budget consists of a wide array of taxes, user fees, federal receipts, interest earnings, and revenues from numerous fines and other miscellaneous sources. By statute, all revenues remitted to the State are directed to specific funds to be used for specified purposes. The focus of this **Issue Review** is on Iowa's General Fund, which is the State's main operating fund from which most discretionary spending is provided. Appropriations from the General Fund are approximately 82.3% of all appropriations from State funding sources (**Attachment A**).

Iowa Code section [444.21](#) creates the General Fund and specifies that the moneys derived from taxes levied and other revenues collected for State general purposes comprise the General Fund of the State. In addition, any moneys remitted to the State treasury that do not have a designated fund for deposit are also deposited in the General Fund.

Iowa's General Fund consists largely of revenues derived from State Individual Income Tax and the State Sales/Use Tax (**Figure 1**). Together, the two sources comprise 84.2% of total General Fund revenues. The remaining 15.8% of revenues comes from other sources including Corporate Income Tax, Inheritance Tax, and Insurance Premium Tax, as well as a host of other taxes, fees, and receipts.

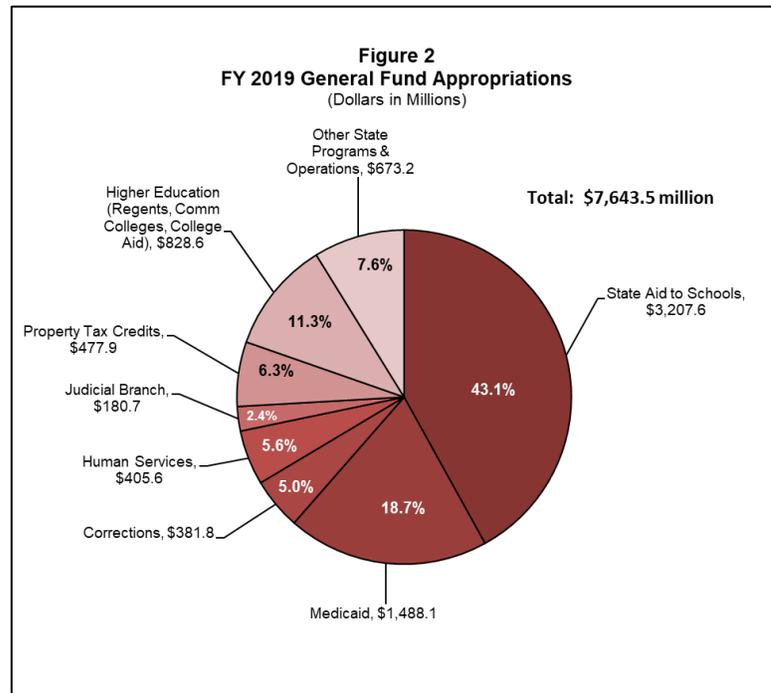


The current revenue estimate for the FY 2019 General Fund budget is \$7.733 billion. Of this, 51.6% is from Individual Income Tax and 32.6% is from the State Sales/Use Tax. The Corporate Income Tax comprises 6.7% of all revenues, and the remaining 9.1% comes from a variety of other sources.

Spending from the General Fund is primarily accomplished through annual appropriations enacted by the General Assembly and signed into law by the Governor.

Appropriations establish the spending authority for State agencies and as a result control spending and establish the budget.

A total of \$7.644 billion was appropriated from the General Fund for FY 2019 (**Figure 2**). The majority of General Fund spending is directed to State Aid to Schools and Medicaid. Together, these two appropriations comprise 61.8% of all General Fund spending. This percentage has remained relatively constant over the past several years. Other significant areas of General Fund spending include higher education (Regents Institutions, Community Colleges, and College Student Aid), corrections, human services programs, and property tax replacement.



## **CATEGORIES OF GENERAL FUND SPENDING**

For purposes of analyzing trends of General Fund spending, the Legislative Services Agency (LSA) categorizes appropriations into four general groups:<sup>1</sup> 1) State Government Operations, 2) Grants and Aid to Individuals, 3) Aid to Local Governments and Tax Relief, and 4) Capital Projects. A brief description of each category is below.

1. **State Government Operations.** Appropriations that provide funding for ongoing operational costs of State government. The appropriations in this group fund the operating budget of State departments. The single largest expenditure of departments' operating budgets is salaries and benefits of State employees.
2. **Grants and Aid to Individuals.** Appropriations for programs that provide direct financial assistance to individuals or reimburse organizations that provide assistance to individuals. This includes State funding directed to private and nonprofit organizations.
3. **Aid to Local Governments and Tax Relief.** Appropriations that reduce the tax burden on local governments and individuals (e.g., property tax credits, State Aid to Schools).
4. **Capital Projects.** Appropriations used for constructing or making major repairs to State facilities.

<sup>1</sup> Line item appropriations are categorized by the LSA based on the criteria that best fit the purpose of the appropriations.

Of the four categories of appropriations, Aid to Local Governments and Tax Relief comprises the majority of General Fund spending (**Figures 3 and 4**). In FY 2019, these appropriations accounted for 51.4% (\$3.930 billion) of all General Fund spending. State Aid to Schools, which was appropriated an estimated \$3.208 billion, was the largest appropriation in this category. Various property tax replacement appropriations are also included in this category, comprising \$477.9 million in FY 2019 spending. The most notable property tax replacement appropriations include the [Homestead Property Tax Credit](#), [Commercial and Industrial Property Tax Replacement](#), and the [Business Property Tax Credit](#).

Grants and Aid to Individuals comprised 24.3% (\$1.856 billion) of the total appropriations for FY 2019. The largest appropriation in this category was the Medicaid program, which was funded at \$1.488 billion in FY 2019. Other human services-related programs that provide aid to individuals were appropriated \$405.6 million in FY 2019, and included adoption subsidies, child and family services, child care assistance, and the Family Investment Program.

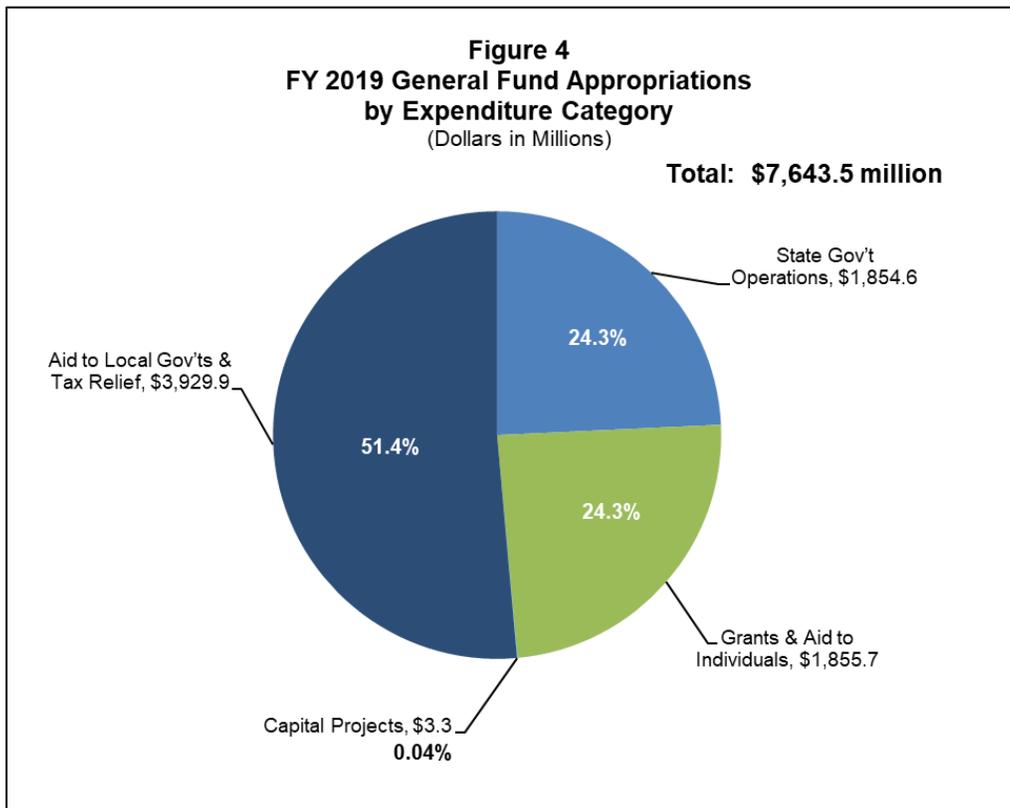
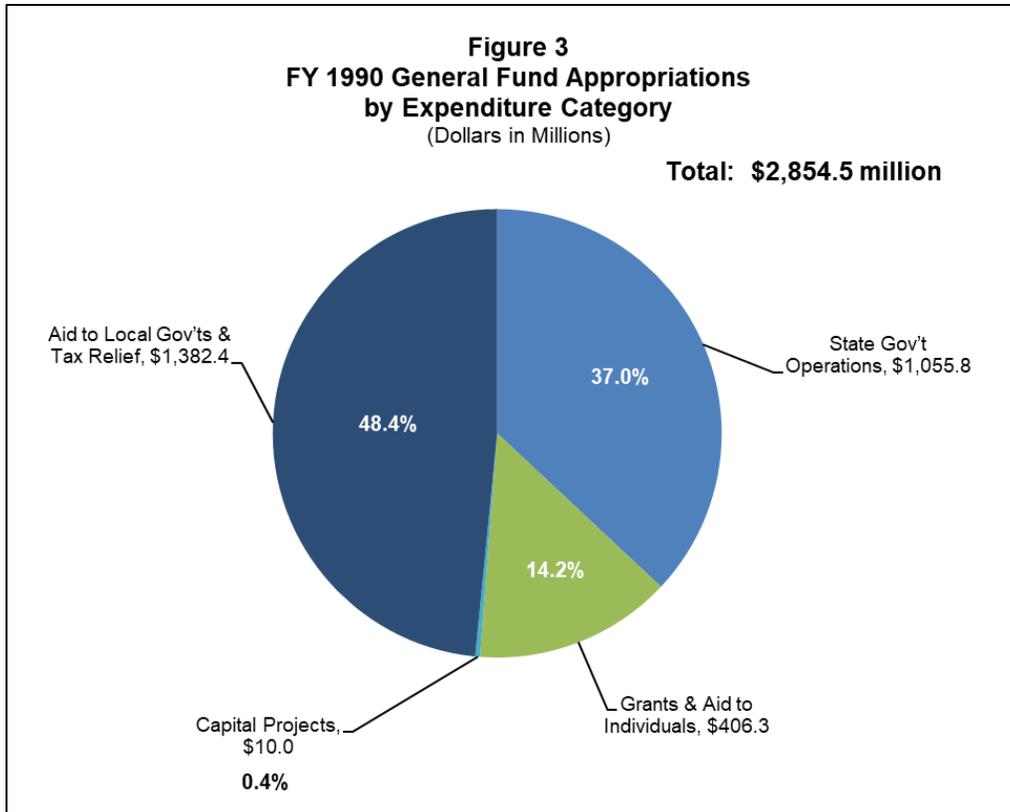
State Government Operations made up 24.3% (\$1.855 billion) of the total FY 2019 General Fund appropriations. Included in the State Government Operations category are moneys for the various departments of State government that are responsible for implementing State programs and policies. Some of the largest State agencies receiving General Fund moneys include the State Board of Regents and Regents institutions, the Department of Corrections, and the Department of Human Services (DHS), including the State institutions under DHS purview.

The last category, Capital Projects, is the smallest category of General Fund spending. In FY 2019, \$3.3 million was appropriated for capital projects, most of which was directed to the State's water quality initiative. Since FY 1996, the majority of capital projects have been funded through separate designated funding sources. The most prominent source for funding of capital projects is the Rebuild Iowa Infrastructure Fund (RIIF), which receives the majority of its revenue from the State Wagering Tax. From FY 1996 to FY 2019, an average of \$152.3 million has been annually appropriated from the RIIF for infrastructure, technology, and environmental related projects and programs. The State has also issued revenue bonds throughout the years to fund a wide array of construction projects.<sup>2</sup>

**Figures 3 and 4** show how the composition of the appropriations changed from FY 1990 to FY 2019. The most notable change occurred within the Grants and Aid to Individuals category. In 1990, these appropriations made up 14.2% of all General Fund appropriations. In FY 2019, these appropriations comprised 24.3%. Additionally, the proportion of appropriations for State Government Operations decreased from 37.0% in FY 1990 to 24.3% in FY 2019.

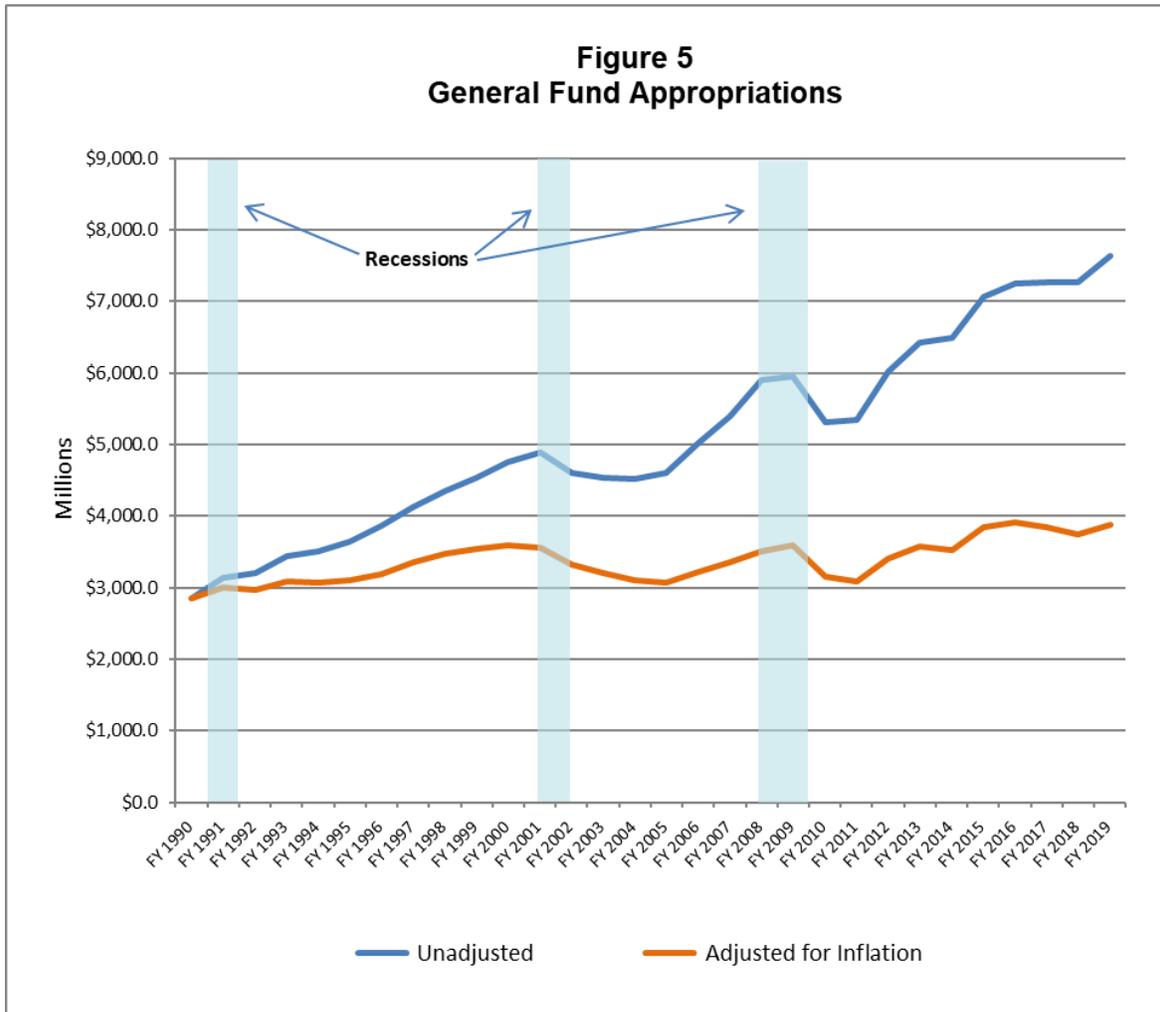
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<sup>2</sup> For more information on State debt, see the [State Obligations Report](#) published by the Legislative Services Agency.



**GENERAL FUND APPROPRIATIONS TRENDS**

In FY 1990, General Fund appropriations totaled \$2.855 billion. For FY 2019, appropriations were enacted totaling \$7.644 billion,<sup>3</sup> an increase of \$4.789 billion during this 30-year period (Figure 5). This equates to an average annual increase of 3.5%. When adjusted for inflation using the Consumer Price Index (CPI) and stated in 1990 dollars, the growth during this 30-year period is \$1.032 billion. The average annual increase in appropriations from FY 1990 to FY 2019, when adjusted for inflation, is 1.1%.



From FY 1990 to FY 2019, there were two periods when General Fund appropriations trended downward. These include the fiscal years from FY 2002 to FY 2005 and FY 2009 to FY 2011. These reductions in spending correspond closely to the two most recent economic recessions.<sup>4</sup> Reductions in tax revenue collections typically lag behind economic downturns due to the timing of when taxes are remitted to the State. A reduction in General Fund tax revenues in FY 2002 was preceded by the recession that began in 2001 and required the General Assembly to reduce General Fund appropriations in order for the budget to remain balanced. By the close of

<sup>3</sup> The FY 2019 appropriations were enacted by the General Assembly and signed into law by the Governor during the 2018 Legislative Session. The appropriations are considered estimates until the close of the 2019 fiscal year.

<sup>4</sup> National Bureau of Economic Research, [US Business Cycle Expansions and Contractions](https://www.nber.org/publications/US-Business-Cycle-Expansions-and-Contractions).

FY 2002, General Fund appropriations had been reduced by \$279.4 million (5.7%) compared to FY 2001. Annual appropriations remained below the FY 2001 level until FY 2006.

Net General Fund receipts also began declining in the later part of FY 2009, following the recession of 2008; however, the largest reduction occurred in FY 2010. In October 2009, the Revenue Estimating Conference lowered the FY 2010 General Fund revenue estimate by 7.1% (\$414.9 million). In order to maintain a balanced budget, the Governor issued an Executive Order requiring a 10.0% across-the-board reduction to all FY 2010 General Fund appropriations. This resulted in a reduction of \$564.4 million in General Fund appropriations. Appropriations for FY 2011 remained relatively level compared to FY 2010, increasing by 0.9%.<sup>5</sup>

Although General Fund appropriations were reduced during these two periods, some State programs, namely Medicaid, State Aid to Schools (school aid), and property tax replacement, received non-General Fund appropriations to offset General Fund reductions. These non-General Fund sources consisted largely of tobacco settlement payments, federal stimulus funds through the [American Recovery and Reinvestment Act of 2009 \(ARRA\)](#), and the State's reserve funds.<sup>6</sup>

General Fund spending increased \$660.6 million (12.3%) in FY 2012 as General Fund moneys replaced much of the one-time funding used during FY 2010 and FY 2011. In the fiscal years following FY 2012, General Fund appropriations have increased at an average annual rate of 3.5%.

**Figure 6** compares the change in appropriations for each category from FY 1990 to FY 2019. Aid to Local Governments and Tax Relief appropriations contributed the most to the increase in spending over the last 30 years. Of the total \$4.789 billion increase, these appropriations comprised 53.2% of the increase (\$2.548 billion) and grew at an average annual rate of 3.7% during the 30-year period. Appropriations for State school aid account for 88.3% of the increase or \$2.250 billion for the programs included in the Aid to Local Governments and Tax Relief category.

	FY 1990	FY 2019	Change	Percent of Total Change	Average Annual % Change
Aid to Local Gov'ts & Tax Relief	1,382.4	3,929.9	\$ 2,547.5	53.2%	3.7%
Grants & Aid to Individuals	406.3	1,855.7	1,449.4	30.3%	5.4%
State Gov't Operations	1,055.8	1,854.6	798.8	16.7%	2.0%
Capital Projects	10.0	3.3	-6.7	-0.1%	-3.8%
<b>Total</b>	<b>\$ 2,854.5</b>	<b>\$ 7,643.5</b>	<b>\$ 4,789.0</b>	<b>100.0%</b>	<b>3.5%</b>

Grants and Aid to Individuals accounted for 30.3% of the total increase. This category of appropriations experienced the fastest rate of increase of all categories during the last 30 years, growing at an average annual rate of 5.4%. Within the category, the Medicaid appropriation is responsible for the majority of the increase. In FY 1990, the appropriation for Medicaid was

<sup>5</sup> Fiscal Topic – [Across-the-Board Reductions](#), LSA, October 2009.

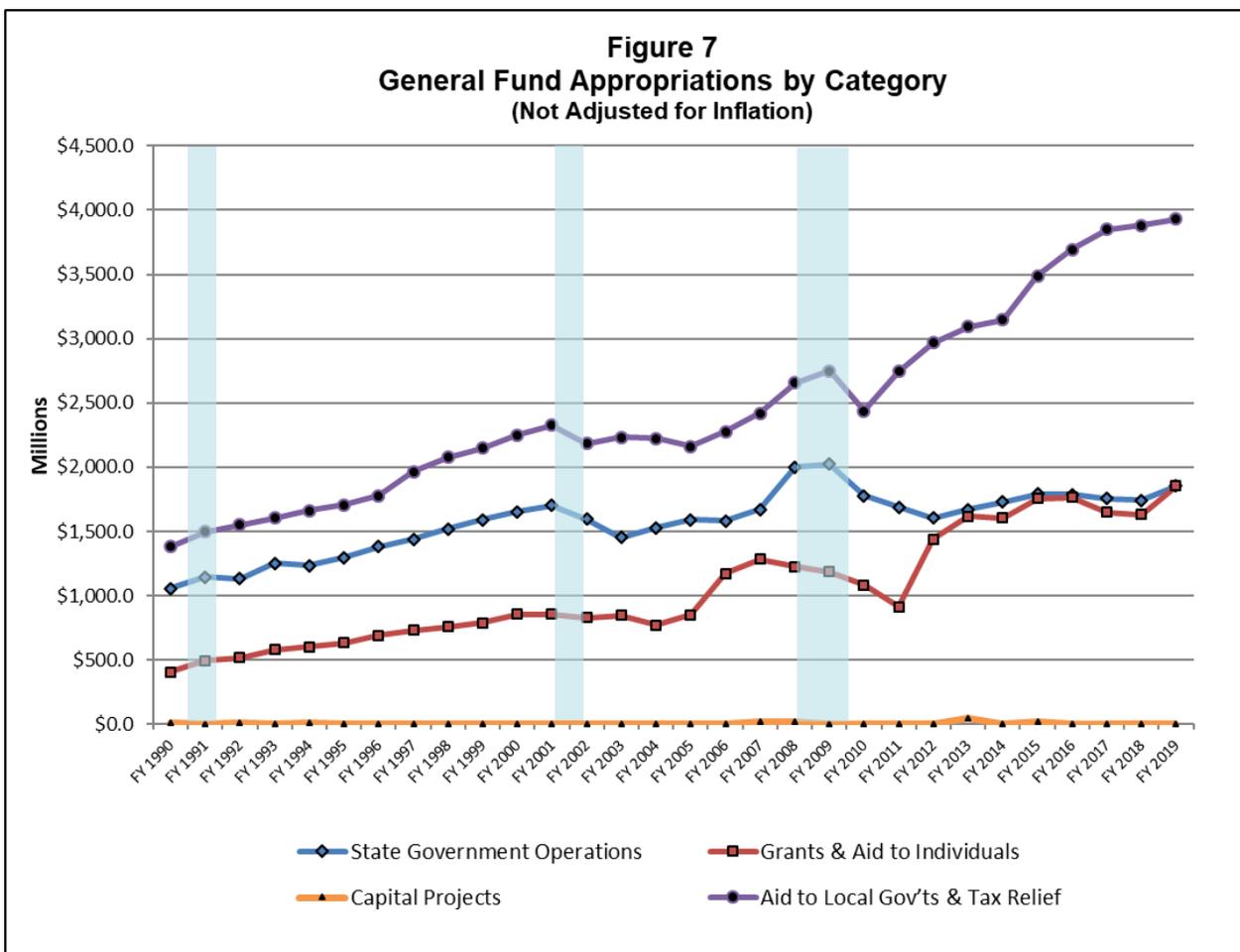
<sup>6</sup> Issue Review – [General Fund Revenue Transfers and Appropriation Shifts](#), LSA, December 13, 2010.

\$192.4 million, which increased to \$1.488 billion in FY 2019, representing an average annual increase of 7.3%.

Appropriations for State Government Operations increased \$798.8 million from FY 1990 to FY 2019, which is 16.7% of the total growth during this period, or an average annual increase of 2.0%.

General Fund appropriations for Capital Projects are relatively insignificant compared to the overall General Fund budget, comprising only 0.04% of total appropriations in FY 2019. As previously mentioned, the majority of Capital Projects are funded with non-General Fund Sources.

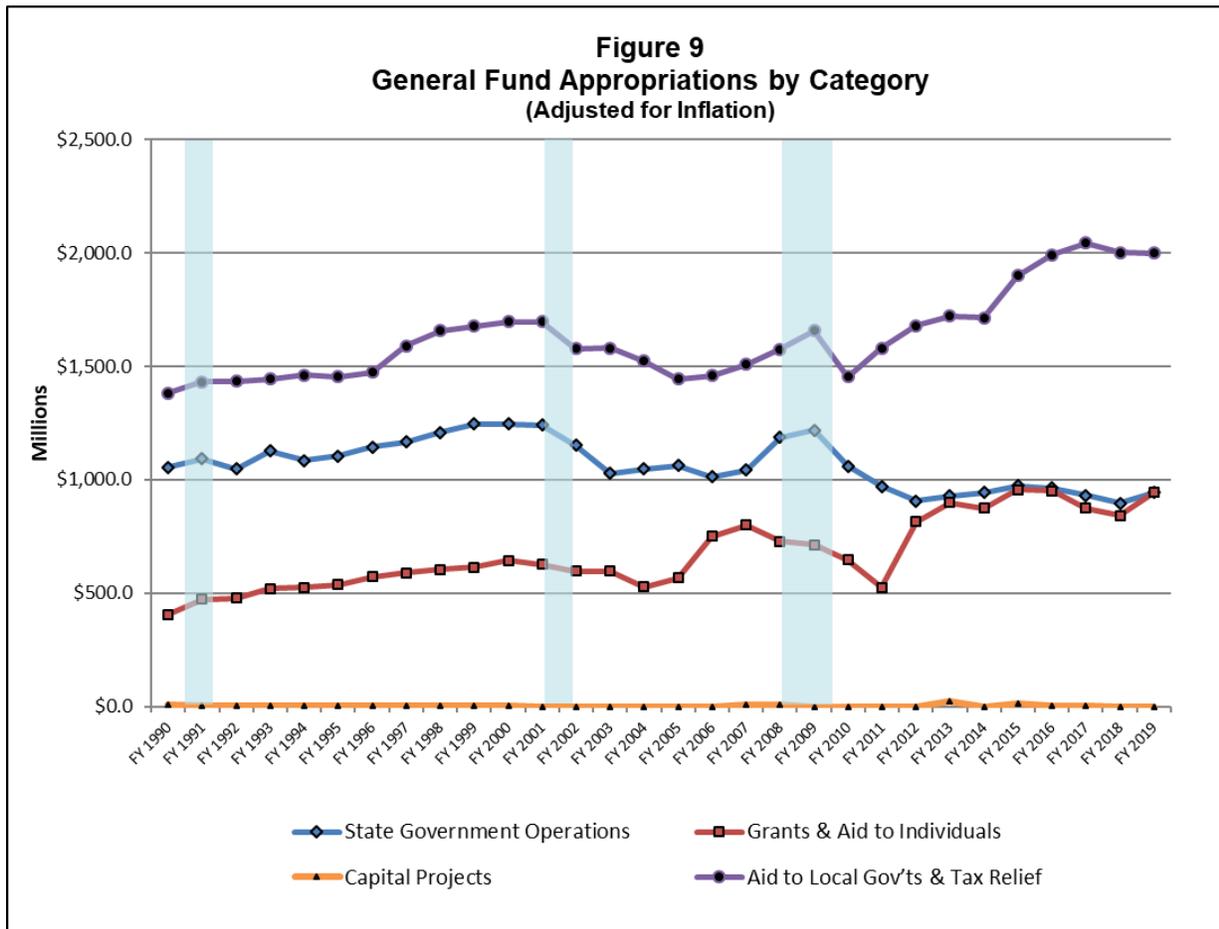
**Figure 7** shows the annual trend of the General Fund appropriations by category from FY 1990 to FY 2019.



**Figures 8 and 9** show the change to the appropriations for each category adjusted for inflation. As would be expected, the dollar change for all categories are less, but the notable change is to State Government Operations. When adjusted for inflation, State Government Operations shows a decrease of 10.9% over the 30-year period, equating to an average annual decrease of 0.4%.

**Figure 8**  
**General Fund**  
**Appropriations by Category (Adjusted for Inflation)**  
(Dollars in Millions)

	FY 1990	Adjusted for Inflation FY 2019	Change	Percent of Total Change	Average Annual % Change
Aid to Local Gov'ts & Tax Relief	1,382.4	1,998.0	\$ 615.6	59.7%	1.3%
Grants & Aid to Individuals	406.3	943.4	537.1	52.1%	2.9%
State Gov't Operations	1,055.8	942.9	-112.9	-10.9%	-0.4%
Capital Projects	10.0	1.7	-8.3	-0.8%	-5.9%
<b>Total</b>	<b>\$2,854.5</b>	<b>\$ 3,886.0</b>	<b>\$ 1,031.5</b>	<b>100.0%</b>	<b>1.1%</b>



## **TAX CREDITS**

The tax credit programs are, in essence, government spending and can be equated to appropriations that provide grants and financial assistance to businesses and individuals. The primary difference with tax credits is that the tax code is used as a means to deliver State funding for the designated initiatives rather than enacting appropriations for such initiatives.

Tax credits are used for a variety of purposes. Iowa has approximately 40 tax credit programs, a majority of which support economic development and job creation initiatives. The more significant economic development-related tax credits include the Research Activities Tax Credit, the [Historic Preservation and Cultural and Entertainment District Tax Credit](#), and the High Quality Jobs Tax Credit. There are also several tax credit programs that provide assistance to low-income individuals, such as the [Earned Income Tax Credit](#) and the [Child and Dependent Care Tax Credit](#). A complete listing of the tax credits can be found in the Iowa Department of Revenue [Tax Credit Contingent Liabilities Report](#) which is published three times per year.

While tax credits, like appropriations, provide a source of State funding for certain programs, they are different from appropriations in that tax credits reduce General Fund tax revenue collections. General Fund appropriations are made annually through the legislative budget process, which results in predictable spending. By contrast, tax credits are generally funded by reducing the tax liability of individuals or corporations through income tax filings. Tax credits are also less predictable than appropriations, making it more difficult to forecast their impact on revenues.

To track the tax credit claims, the Iowa Department of Revenue extracts the information from filed income tax forms. The tax credit claims and awards are reported in the [Tax Credits Contingent Liabilities Report](#).<sup>7</sup>

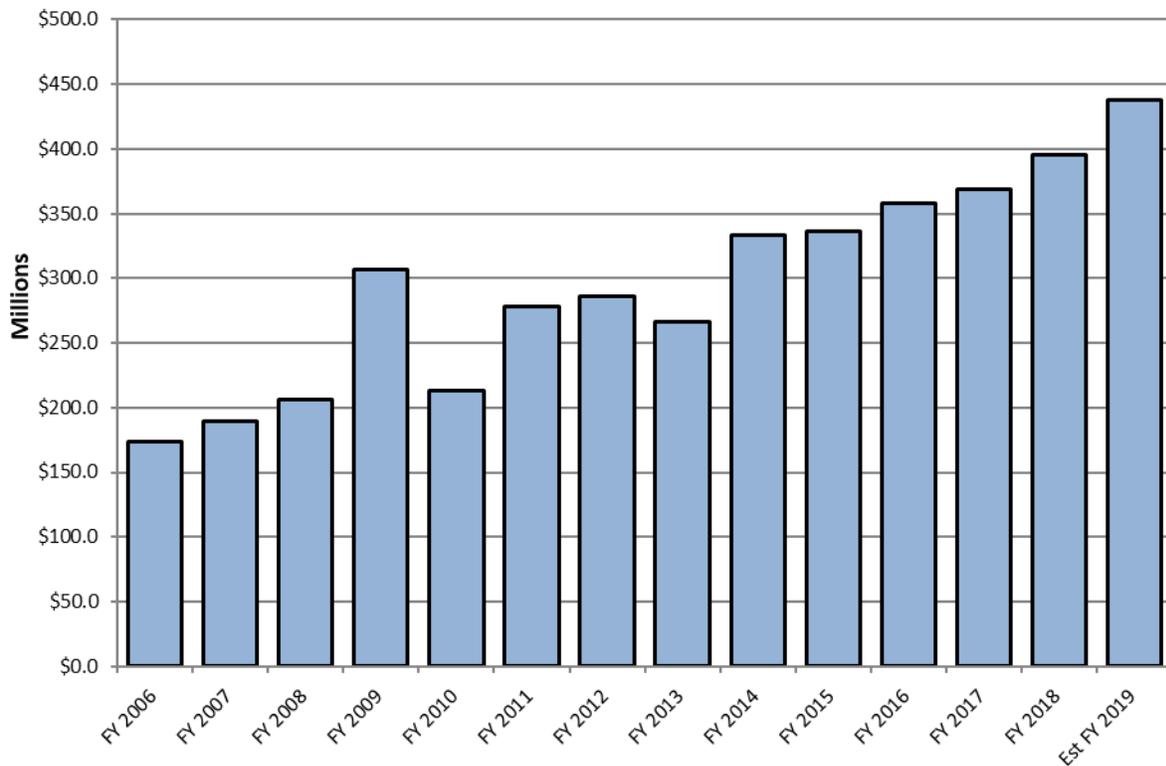
The use of General Fund tax credits has steadily increased since FY 2006.<sup>8</sup> From FY 2006 to FY 2018, actual claims increased \$221.9 million, from \$173.6 million to \$395.5 million. This represents an average annual increase of 7.1%. There was a spike in claims that were funded during FY 2009, in which total claims increased \$100.5 million (48.8%) compared to FY 2008. This was due to a \$56.5 million increase in Research Activities Tax Credit claims and a \$20.5 million increase in Supplemental Research Activities Tax Credit claims. By FY 2010, claims for these two tax credits fell back to FY 2008 levels. Claims are estimated to have increased by another \$42.6 million in FY 2019 (10.8%) to reach a peak of \$438.1 million. **(Figure 10).**

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<sup>7</sup> Iowa Department of Revenue, [Tax Credits Contingent Liabilities Report](#).

<sup>8</sup> In 2006, the Department of Revenue implemented a process to improve the tracking of tax credit claims through the creation of the [IA 148 Tax Credits Schedule](#).

**Figure 10**  
**General Fund Tax Credit Claims**



### **SUMMARY**

Iowa's General Fund is the primary operating fund of the State and provides for the majority of the State's discretionary spending. In FY 2019, over 84.0% of the annual revenue deposited in the General Fund is estimated to come from the Individual Income Tax and the State Sales/Use Tax, while 51.4% of all spending is for appropriations that provide Aid to Local Governments and Tax Relief.

General Fund tax credits continue to be an increasing component of General Fund obligations. Similar to appropriations, tax credits are used to implement certain public policies. While there are annual fluctuations, the overall trend in the use of tax credits is increasing. The use of tax credits is estimated to reach its highest level in FY 2019 at \$438.1 million.

The composition of General Fund spending over the 30-year period examined in this report has shifted. The most notable shift is spending on State Government Operations. In 1990, these appropriations comprised 37.0% of total General Fund appropriations. In FY 2019, these appropriations now make up 24.3%. Additionally, in FY 1990, appropriations for Grants and Aid to Individuals were 14.2% of total General Fund appropriations, but now comprise 24.3%.

This trend is likely to continue largely due to projected cost increases associated with State School Aid and Iowa's Medicaid program outpacing spending in other areas of the budget. For the FY 2020 budget, estimated appropriations enacted for Aid to Local Governments and Tax Relief, of which State School Aid is the largest appropriation, were increased by \$132.6 million compared to FY 2019 (**Figure 11**). In addition, appropriations enacted for FY 2020 for State Government Operations were decreased by \$84.3 million.

Although funding for programs associated with Grants and Aid to Individuals currently shows a decrease of \$69.3 million for FY 2020, this amount does not reflect the projected General Fund supplemental need of \$106.6 million for Medicaid. The additional funding will need to be considered by the General Assembly during the 2020 Legislative Session.

**Figure 11**  
**General Fund**  
**Appropriations by Category**  
(Dollars in Millions)

	FY 2019	FY 2020	Change	Percent Change
Aid to Local Gov'ts & Tax Relief	3,929.9	4,062.5	\$ 132.6	0.1%
Grants & Aid to Individuals	1,855.7	1,786.4 *	-69.3	-0.1%
State Gov't Operations	1,854.6	1,770.3	-84.3	-0.2%
Capital Projects	3.3	24.5	21.2	7.2%
<b>Total</b>	<b>\$7,643.5</b>	<b>\$7,643.7</b>	<b>\$ 0.2</b>	<b>0.0%</b>

\* Does not include a projected supplemental need of \$106.6 million for Medicaid.

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# Attachment A

